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## News

## Summit Capital deal could be CMBS test

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REPORT FROM THE U.S.—Joe Epstein, president and founder of [First American Realty Associates](#), decided to put in a congratulatory call to [Summit Capital](#) recently upon hearing about the firm's plan to lend US\$380 million in commercial mortgage-backed securities.

- Read "[Summit Capital analyzes finance feasibility](#)."

Epstein, though, wasn't able to get in touch with John Stueber, Summit's president. But Epstein thinks there is a good reason for the communication snafu.



John Stueber  
president  
Summit Capital

"They're going to be deluged," Epstein said of the demand for the CMBS debt. "Their phones are going to be ringing off the hook. It's an enviable position to be in ... (Stueber is) the busiest man in America."

Summit Capital announced on 3 March it would begin looking at ways to place approximately US\$380 million of non-recourse capital. Summit said it would place an emphasis on high-quality assets.

About 17 or 18 deals will be funded, and the amount of the loans will be US\$20 million and up. Once the capital is exhausted, the lender might initiate a second round, Summit said in a news release.

"If this first tranche is successful—and I believe it will be—then other people will want to wade into the water as well," Stueber said during a phone interview.

**Test case**

The CMBS market has been under pressure during the past few years, but it is beginning to show some signs of life, said Guy Langford, a mergers and acquisitions principal with [Deloitte](#).

Langford said CMBS originations totaled slightly more than US\$3 billion in 2009 (of which about US\$400 million were term asset-backed loan facilities.) This year, analysts his firm has spoken with said originations are likely to total somewhere between US\$8 billion and US\$30 billion.

Mike Cahill, president and founder of [HREC Investment Advisors](#) in Denver, said lenders will be keeping a close eye on Summit's deal.

"I think they're testing the waters," Cahill said. "If it's successful, it will open up the waters."

Langford said he believes there is pent-up demand for CMBS, given that there has not been much life in the market since 2007.

Demand for the debt will be high, Stueber said. He declined to identify the lender providing the capital.

"It will be a short window," he said. He added that the debt will be given to limited-service or full-service hotels in major metropolitan markets.

Epstein, who said the deal is "phenomenal" news, hopes Summit's CMBS announcement is a sign that the lending market is beginning to thaw.

"Before they went out, there was nothing (happening in the CMBS market)," he said. "It was like losing your best friend."

**No interest?**

At least one person is pessimistic about the offering. Joel Ross, principal of [Citadel Realty Advisors](#) and a leading innovator in hotel securitization, said he does not believe bondholders will buy the paper. The underwriting is too loose, he said.

"The whole thing makes no sense to me," Ross said.

The interest he is seeing now in the CMBS field isn't exactly what Summit is offering. "People want to buy busted CMBS deals," he said.

Stueber said the credit markets froze up when hotels' revenue dropped off during the downturn.

"We're starting to see stabilization," he said. "Now is the time to do this."

Langford also said the CMBS market will be helped by improving fundamentals in revenue per available room and occupancy.

"It certainly seems there is a little bit of life in the market for CMBS issuance," he said.

He added that, "barring some cataclysmic event," he does not foresee a double-dip recession looming.

"I know a lot of guys out there are feeling down," Stueber said. "At some point, we have to move past that."

